STATEMENT OF DAVID GRAVES
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BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
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Thank you, Mr. Chairman. My name is David Graves and I am President of the National Council of Farmer Cooperatives (NCFC). On behalf of NCFC, I want to thank you for this hearing and the opportunity to share our views.

NCFC is a national trade association that represents America's farmer-owned cooperatives. Our members include nearly 100 regional marketing, supply and credit cooperatives whose members, in turn, include over 3,500 local cooperatives which are owned and controlled by a majority of America's nearly 2 million individual farmers.

We commend you, Mr. Chairman, along with Congressman Stenholm, for your efforts to establish the basic framework of the new Farm Bill to be considered by this Committee. The draft concept paper maintains the key principles of current farm policy, provides counter-cyclical assistance to improve the income safety net when commodity prices are low, encourages conservation, and gives recognition to the need to maintain and expand U.S. agricultural exports.

While these provisions are certainly important, we believe there is another component of federal agriculture policy that needs to be addressed if this legislation is to fully provide farmers with the opportunity to enhance their economic well-being and profitability long term. That component relates to the ability of farmers to join together in cooperative self-help efforts. It must be substantially strengthened if farmers are to increase their stake in value-added food and agriculture commerce to:

- Improve their income from the marketplace,
- Better manage their risk,
- Capitalize on new market opportunities, and
- Compete more effectively in a rapidly changing global economy.

Strengthening the ability of farmers to join together in cooperative self-help efforts is critical to the success of any long-term strategy to achieve these important goals.

This is the 4th year in a row that Congress has been faced with the need for short-term emergency assistance to meet the immediate income needs of farmers. Thanks to the leadership of this Committee and the generous support of Congress, such assistance for many farmers has meant the difference between survival and going out of business. This is reflected in the fact that government payments now account for as much as two-thirds or more of farm income.

The farmer's share of the consumer food dollar has declined to just 20 cents – its lowest level ever. There are many reasons why this has happened. Low commodity prices clearly are one reason. Other factors include changing consumer preferences and demographics, as well as changes throughout the entire marketing chain beyond the farm gate as businesses seek to gain efficiencies, increase market share, enhance their profitability and meet consumer demand.

There is no question, however, that reversing the decline in the farmers' share of the consumer food dollar would help improve the farmer's economic well being. For example, increasing the farmer's share of the consumer food dollar by just one cent to 21 cents would help farmers generate an additional $6 billion in gross income from the marketplace. The challenge of course is how to accomplish this given the current business environment and ongoing trends.

Again, we believe the answer involves providing farmers greater opportunity to join together in cooperative self-help efforts. There are two main areas where public policy and related programs should be focused to help achieve this important objective.

First, there is a critical need for improved access to capital to help farmers and their cooperatives gain ownership in value-added activities beyond the farm gate, to invest in new equipment, to modernize and expand, and meet costly environmental and other regulatory requirements. Second, there is an overwhelming need to revitalize USDA programs in support of farmer cooperatives, including research, education and technical assistance, and make them a high priority.

I. <u>Need for Improved Access to Capital</u>

Access to capital is the major challenge facing farmers and their cooperatives. Instead of being able to look to Wall Street and outside investors for capital, farmer cooperatives, which are farmer owned and controlled, are largely dependent on their farmer members as a source of capital. This limited pool of capital becomes even more limited when economic conditions are as challenging as they are today.

A. Enhance USDA's Business and Industry Loan Guarantee Program for Farmer Cooperatives

To help meet the capital requirements of farmers and their cooperatives, we recommend that USDA's Business and Industry (B&I) guaranteed loan program be modernized and strengthened as it applies specifically to farmer cooperatives.

Specifically, we recommend the following:

1. Eliminate the current $25 million maximum loan guarantee for farmer cooperatives.

   - This would make the program for farmer cooperatives consistent with other USDA lending programs for other types of cooperative borrowers, and provide greater flexibility to meet the capital requirements of farmer cooperatives in today's global economy. In most cases, the current limitation is actually even lower since USDA has generally limited the size of such loan guarantees to a maximum of $10 million. Such a restriction limits the effective use of the program by farmer cooperatives for the benefit of their farmer members.

   - The current limitation also fails to recognize the increased costs and capital requirements involving commercially viable projects since it was established. For example, in the 1970's, B&I loan guarantees helped Texas cotton producers finance a cotton denim mill, allowing them to capture the additional value created by further processing and marketing their cotton in the form of denim, while also helping create additional jobs. Today, such a facility would cost an estimated $100 million or more and would not be possible with the current limitation on the B&I loan program.

2. Eliminate requirement that farmer cooperative borrowers or their related plants, equipment and facilities be located in areas of 50,000 or less in population.

   - Such a limitation adversely affects sound business decisions by the farmer owners, directors and management of a farmer cooperative in terms of the strategic location of plants and facilities necessary to be competitive and commercially viable, and thereby able to generate desired returns to the cooperative's farmer owners for the purpose of improving their income.

   - Increasing expansion of urban and suburban areas, along with population growth, has resulted in many farmer cooperatives no longer being eligible under the current program since they are now located in areas that exceed the 50,000 population threshold.

- ♦ Regardless of business location, earnings of farmer cooperatives are returned to their farmer owners on a patronage basis, thereby improving their income, and contributing to the economic and tax base of rural communities where they reside.

3. Require consideration of both tangible and intangible assets, and unsecured subordinated debt, in the case of farmer cooperative borrowers, consistent with recognized commercial lending practices and in accordance with generally accepted accounting principles.

   - ♦ Currently, in the case of farmer cooperatives, USDA allows consideration of only tangible assets. Commercial lenders, however, generally recognize there is considerable value associated with brands, licenses, patents and trademarks, and will take into account such intangible assets subject to appraisal when evaluating the eligibility of a potential borrower. This also applies to unsecured subordinated debt, which can be viewed as equivalent to equity. The effect of USDA's current guidelines is to reduce the ability of farmer cooperatives to access needed capital on an affordable basis under the program.

4. Provide minimum loan guarantees of 90% in the case of farmer cooperatives with additional authority to allow up to 100 percent loan guarantees to make the program more consistent with other USDA programs for other types of cooperative borrowers.

   - ♦ Under the current program, USDA has authority to provide up to 90% loan guarantees. However, actual guarantees are generally limited to 80% up to $5 million; 70% for loans from $5-10 million; and 60% for loans from $10-25 million. Such limited guarantees have the effect of increasing the cost of capital for farmer cooperatives relative to other types of cooperative borrowers which, in turn, impacts the cooperative's farmer owners.

   - ♦ Requiring USDA to fully utilize existing loan guarantee authority in the case of farmer cooperatives would help improve access to need capital and credit on a more affordable and cost effective basis, improve cash flow, enhance returns and the commercial viability of related projects.

5. Eliminate 2 percent loan origination fee to make the program more consistent with similar programs for other types of cooperative borrowers.

   - ♦ The current fee structure imposes a significant cost on the farmer members of a cooperative. The result is to reduce available capital, or reduce cash flow due to higher effective interest rate. Eliminating the fee would make capital available on a more affordable and competitive basis, and enhance the commercial viability of a project, especially new, start-up ventures for value-added purposes.

6. Provide authority for USDA to allow repayment terms up to 35 years (or longer) on guaranteed loans for farmer cooperatives to make the program more consistent with similar programs for other types of cooperative borrowers.

   - USDA B&I loan guarantees generally include terms of up to 7 years for working capital, up to 15 years (or useful life) for equipment and up to 30 years for real estate. Increased flexibility would better enable the program to meet the needs of farmers and their cooperatives especially during start-up and initial phases of operation.

   - Longer repayment terms would also help farmer cooperatives meet costly environmental and other regulatory requirements. For example: EPA's sulfur-diesel and gasoline regulation is projected to require as much as $400 million or more to re-engineer existing farmer owned cooperative refining facilities. USDA should have required flexibility in their programs to help meet such needs. Another consideration: farmer cooperatives are a critical component of rural energy infrastructure, accounting for 40 percent of on-farm fuel needs. Being farmer-owned, they have a unique accountability to their farmer owners, making them a dependable and competitive source of energy-related products.

7. Modify current authority established under the 1996 Farm Bill providing guaranteed loans to farmers for the purchase of stock in a farmer-owned cooperative for value-added purposes to include existing as well as new, start-up, farmer-owned cooperatives.

   - The current program, which applies only to new, start-up ventures, in effect discriminates against farmers who are members of existing cooperatives who are looking to modernize and expand into more value-added business activities for the benefit of their farmer owners. Clarifying existing authority would address this issue and ensure that farmer members of existing cooperatives have equal opportunity to participate in value-added activities.

B. Establishment of an Equity Capital Fund

We also recommend the Committee consider authorizing the establishment of an Equity Capital Fund as has been proposed to further help attract capital to rural America for the benefit of farmers and their cooperatives, as well as other types of rural businesses.

II. Revitalize USDA Programs in Support of Farmer Cooperatives

The other major area where federal agriculture policy needs to be focused is on revitalizing USDA programs, including research, education and technical assistance, whose objectives are to enhance the ability of farmers to join together successfully in cooperative self-help efforts. If farmers and their cooperatives are to be successful in moving into more value-added business activities, they must have the right tools and assistance.

A. Farmer Business Cooperative Service - We recommend that a separate agency be established with USDA to be called the Farmer Business Cooperative Service that is totally dedicated and focused in support of farmer cooperatives. In addition, the Under Secretary for Rural Development should be designated the Under Secretary for Rural Development and Cooperatives.

B. Research, Education and Technical Assistance Programs - We also recommend that not less than $6 million annually should be specifically authorized for the new agency for the purpose of administering and carrying out research, education and technical assistance programs within its mission area in support of farmers and their cooperatives. Further, we recommend that not less than $6 million annually should be authorized for cooperative grants relating to such programs to be administered by the Farmer Cooperative Business Service.

   Since the elimination of what was the Agricultural Cooperative Service in 1994, there has been no agency within USDA that has been totally dedicated and focused on helping farmers join together in cooperative self-help efforts. We believe there needs to be a separate agency with that mission and it deserves a high priority.

   In addition, there is currently no separate authority for funding for such activities. Instead, funding for such activities currently comes out of the salary and expense budget for USDA as part of the appropriations process. This makes long term planning very difficult and adversely affects program continuity, especially with regard to programs relating to farmer cooperatives.

C. Value-Added Technical Assistance Grants – We also recommend that the Value-Added Technical Assistance Grants Program be re-authorized and expanded, and we are pleased to see this included in the draft concept paper for consideration by this Committee.

Conclusion

Mr. Chairman, we believe including these recommendations in the Farm Bill is essential as part of a long-term strategy to help farmers improve their economic well being and profitability. Farmers need to gain a greater stake in value-added activities beyond the farm gate to improve their income from the marketplace, better manage their risk, capitalize on new market opportunities, and compete more effectively in a rapidly changing global economy. We believe this can best be achieved through public policies and programs that encourage and enhance the ability of farmers to join together in cooperative self-help efforts. Accordingly, we look forward to working with you and the members of this Committee to help achieve these important goals.

Thank you again, Mr. Chairman, for the opportunity to appear before you. I look forward to responding to any questions you or members of the Committee may have.